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59th

ANNUAL FINANCIAL SURVEY

OF THE

RIGID PAPER BOX INDUSTRY

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59th ANNUAL FINANCIAL SURVEY

of the

RIGID PAPER BOX INDUSTRY
Covering the year 1983

This survey of the Rigid Paper Box Industry provides an extensive look at the past year's operating environment -- the general economy. Inflation and interest rates have traded places this past year in people's concerns. The two, however, are integrally linked. Not only is it important to follow the general economy, but it is also important to compare your performance to an externally-oriented benchmark. By comparing your own performance with such a benchmark, the computer-prepared personalized Company Supplement, or with a specific geographic area or sales size, you can better determine your company's goals and alternate improvement actions needed to reach those goals.

I. 1983 and Beyond

High Growth, Falling Interest Rates, and Low Inflation

High interest rates are supposed to mean a weak housing market and lackluster consumer spending. However, in the face of interest rates high by historical standards (although lower than last year), 1983 saw a powerful economic recovery led by those two sectors. As Table 1 indicates, real GNP grew at an annual 3.4% rate, housing starts jumped 60% to an annual rate of 1.7 million from under 1.1 million in 1982, and consumption of consumer durables grew in real terms at 11.8%. Almost across the board, we saw economic growth. Only Real Plant and Equipment Expenditures decreased, as many businesses waited to see the strength of the recovery before committing to major expansions.

Not only did the economy take off, but also as Table 1C shows, inflation reached its lowest point in years. The Consumer Price Index rose only 3%, the Producer Price Index rose 1.6%, and the GNP deflator, the best measure of inflation throughout the economy, rose only 4.2%, its lowest increase since 1972. The low rate of inflation may be the best news the economy has seen in a very long time. Interest rates, although still high in historical terms, continued

their downward trend in 1983. Real interest rates, the amount paid after adjusting for inflation, are simply the interest rates minus inflation. Real rates stayed higher than expected, caused in part by the unforeseen pace of the decrease in inflation. Figure 1 shows the dip in real and nominal interest rates since the 1981 peak. Notice, however, that the prime rate in nominal terms dropped below its 1979 level last year, while the real prime is still well above the 1979 rate. Table 1D shows the real interest rate for various types of debt.

Inflation and Interest Rates

The severity of the past recession was caused to a large degree by the high inflation rate of the past decade. The extremely tight monetary policies that caused the downturn would have been unnecessary had inflation stayed at a more moderate level. Inflation weakened the entire economic structure of the US, fooling businessmen into believing that they were making money. And indeed they were depositing cash in the bank, but cash that was worth less and less. High inflation made reinvestment a losing proposition; the real damage done to the economy only recently appeared. Ironically, just as the general public has begun to believe that the days of double-digit inflation are behind us, the capital markets are panicking. Wall Street is now building in a higher margin for potential inflation, the "inflation-premium", in long-term debt. In fact, half of the increase in long-term interest rates since January has been a result of rising expectations of future inflation. At the same time, analysts fear that we are growing too fast, "overheating" at an "unsustainable" growth rate. This rapid growth spurs substantial private credit needs, which combined with federal borrowing, may well push interest rates even higher.

The reason behind these fears, as almost everyone who watches network news or reads the newspaper knows, is the high federal deficit. However, some influential economists disagree, placing the blame on the high level of government spending itself, not on the deficit. The reasoning behind the two positions is clear and not necessarily contradictory. The standard position argues that the government will have to cover its cash shortage by borrowing either from banks or the Federal Reserve. If from the latter, the Fed will

increase the money supply. And the money supply, if increased too much, is associated with, and in our view, the primary cause of, higher inflation. Since Paul Volker, Chairman of the Federal Reserve, has stated that the Fed will not "accomodate" the deficit by increasing the money supply, the alternative is public borrowing. As the funds available for lending and investment do not increase but stay the same, while the demand for this credit increases by the amount the government tries to raise, interest rates rise to a higher level than they would otherwise reach.

The other view argues that the credit pool available for loans and investment is affectd by the level of government spending. When the government increases spending, it pays for this increase either through taxes or borrowing (i.e., increasing the deficit). The additional taxes raised decrease the amount of funds that private individuals have available to invest; in other words, some of the tax revenue raised by the government would have otherwise funded borrowing needs. By reducing the amount of credit available through increased taxes, the increased government spending therefore increases the interest rate. Whether funded by borrowing -- the deficit, or by increased taxes, government spending causes the higher interest rates in the eyes of these economists. An attempt to cut the deficit without a substantial reduction in government spending will have little impact on long-term interest rates, while an attempt to lower rates through a looser monetary policy will fuel inflation and ultimately drive the rates up.

Therefore, we have several factors working together to hold interest rates up:

1) A strong private economy with a high demand for credit,
2) High government spending which itself, or through the deficit, "crowds out" private investment,
3) Fear of future inflation which results in a higher loan spread to cover the risk.

Tighter monetary policy will further decrease the credit pool and push up rates; at the same time, substantially looser money will fuel fears of inflation, also increasing rates. Combine this with the financial deregulation which has increased confusion and

uncertainty in the financial community, the unending saga of teetering money-center banks and rumors of Third World debt default, and it is easy to see that the Federal Reserve, the ultimate authority in the banking system, must move carefully to avoid choking off the recovery, raising interest rates, and sparking renewed inflation.

1984 and beyond

The outlook for the rest of 1984 is far from clear. The ancient Romans read chicken entrails to forecast the future; although economists now stare at computer terminals instead of dead chickens, their forecasts often seem as mystic. Not only are some of the crucial economic relationships far from clear, the forecaster must also forecast political actions as much as economics. All manner of events, political and otherwise, are possible. For example, will the Federal Reserve change its position on slow monetary growth? Will the Federal government attempt to cut the deficit, and if so, by cutting spending or raising taxes? Will war in the Persian Gulf cut back our flow of oil? Will the UAW strike GM? Will any more of the money-center banks start to go under, thanks to the carefree lending practices of the recent past? And what will happen to the dollar, and when?

Most economists expect a slowing economy for the rest of the year. A survey of leading private economists has resulted in a "consensus" view that the real growth in GNP will reach 5.8%, with inflation at 4.4%. Inflation will be more noticeable, as these economists expect a major increase in the Consumer Price Index to 4.8% from 1983's 3.2%. Interest rates have been the real joker for the past several years. No one has done a very good job forecasting them, but that does not stop economists from forecasting; on the contrary, it makes them try harder. The consensus view calls for some movement upward, with rates peaking no higher than 15%. And unemployment should stay somewhere in the 7% range for the rest of the year. As far as 1985 is concerned, the "consensus" calls for slower real growth of just over 3%, and inflation at just under 6%.

Different scenarios present themselves with some regularity in the media and Sunday morning talk shows. Many analysts feel that the overheating economy will push inflation and interest rates sharply higher,

resulting in a 1985 recession. In fact, some feel that the seeds of higher inflation were planted in late 1982 and early 1983, when the money supply jumped dramatically. These economists point out that inflation follows rapid growth in the money supply by about two years. Others feel that the growth is already slowing. If so, then there may be no "overheating", and therefore no 1985 recession. Finally, another group feels that another recession is about to occur in 1984, the culprit being the already high interest rates. However, the economy has been recovering in the face of high interest rates for the past four quarters. And equally important, no post-war recession has developed without a monetary squeeze. High interest rates caused by strong demand for credit do not cause recessions, they merely slow the economy. High interest rates caused by extremely tight money, on the other hand, have been the forerunner of every recession in the US since the end of World War II, since the Federal Reserve generally waits until inflation is obvious, and then contracts money growth too swiftly.

Many economists attempt to forecast the length of recoveries on the length of past recoveries -- on the upside of the business cycle. The average post-war recovery has lasted 18 quarters, and we are into the fifth quarter of our recovery now. If the current recovery is "average", we can expect 13 more quarters of positive growth before hard times appear in 1987. However, the "average" length tells us little; the cycles have lasted between eight quarters (2 years) and 35 quarters (8.75 years). And this is not a normal cycle because our economy is changing structurally. We are becoming a service-based nation. We are finding it more and more difficult to compete abroad; not only are lower foreign wages hurting us, but we are losing our edge in productivity. On top of this, the dollar remains strong.

A strong dollar means it is worth more French Francs, Japanese Yen, or whatever foreign currency you wish to compare it to. Since it is worth more in that currency, one dollar can buy more foreign goods than it could in the past. The result is that Americans buy more imports, because imports have become cheaper. By the same token, foreigners find that American goods are more expensive; they buy fewer American exports. American jobs suffer. In theory,

the strong American dollar should weaken after a time; as we buy more foreign goods, they hold more dollars. At some point, they decide they really do not want more dollars, and are not willing to "buy" many. The price of dollars, the exchange rate, should fall. Theory has not begun to work.

One significant reason why theory has not met reality is the high interest rates in the US compared to the rest of the West. The interest rates encourage foreigners to acquire more dollars to invest in US capital markets. As long as the exchange rate stays at its current level, the massive trade deficit will continue. Although it indicates that American consumers are getting bargains, it also means that many in the US will have a most difficult job exporting. And that means continued weakness in the economic sectors linked to exports, or suppliers to exporters, and on down the line.

The Chinese had a blessing of sorts. "May you live in interesting times." Well, may the economy be as interesting as it is uncertain.

PERFORMANCE INDICATORS

TABLE 1A

Economic Indicators

(Billions Current Dollars Unless Otherwise Stated)

	1983	1982	% Change
Gross National Product (1972 $)	1535.3	1485.4	3.4%
Gross National Product	3310.5	3073.0	7.7%
Gross Private Domestic Investment	471.8	414.5	13.8%
Non-Residential	348.3	348.3	0.0%
Residential	130.0	90.8	43.2%
Government Purchases of Goods and Services .	689.6	649.2	6.2%
National Personal Income	2742.1	2578.7	6.3%
Wage and Salary Disbursements	1664.6	1568.1	6.2%
Other Labor Income	173.4	156.6	10.7%
Disposable Income	2335.6	2176.6	7.3%
Civilian Employment Rate (millions).....	100.8	99.5	1.3%
Unemployment Rate (%)	9.4	9.6	-2.1%
Total Industrial Production Index (1967 = 100)	147.6	138.6	6.5%
Total Mfg. Production Index (1967 = 100)	148.2	137.5	7.8%
Capacity Utilization - % Total Mfg.	75.2	71.1	5.8%
Paper & Allied Products Index (1967 = 100)	164.2	150.7	9.0%
Producer Price Index for Pulp, Paper & Allied Products	298.1	288.7	3.3%

TABLE 1B

Economic Growth (all data in real terms)

	Percent Change, Annual Rate				
	1979	1980	1981	1982	1983
GNP Components	2.8%	-0.3%	2.6%	-1.9%	3.4%
Consumption	2.7%	0.5%	2.7%	1.4%	4.2%
Durables	0.3%	-6.6%	2.7%	-0.9%	11.8%
Non-Durables	2.5%	0.7%	1.9%	0.5%	3.3%
Services	3.7%	2.7%	3.3%	2.9%	2.7%
Residential Invest.	-5.6%	-21.1%	-5.4%	-15.9%	41.1%
Non-Residential Invest.	7.3%	-2.4%	5.2%	-4.7%	1.4%
Federal Gov't	1.8%	4.2%	3.8%	5.6%	1.1%
State & Local Gov't	1.1%	1.0%	-1.0%	-0.5%	0.1%
Industrial Production Index	4.4%	-3.6%	2.6%	-8.1%	6.4%
Plant & Equip. Expenditures	7.6%	0.5%	-0.1%	-5.5%	-3.8%
Final Demand		Million Units			
Housing Starts	1.72	1.30	1.10	1.06	1.70
Auto Sales	10.60	9.00	8.50	8.00	9.20

TABLE 1C

Prices

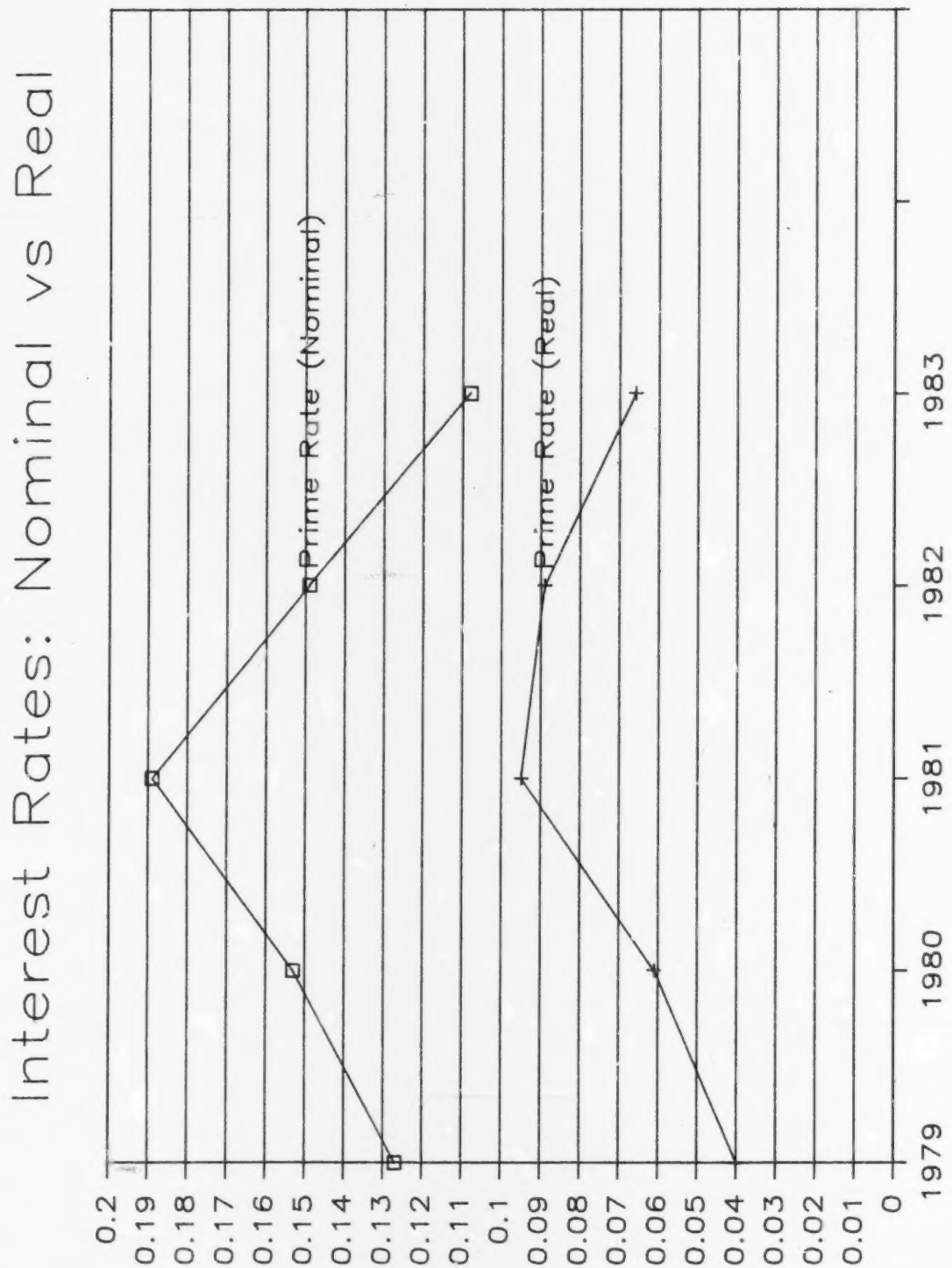
	Percent Change, Annual Rate				
	1979	1980	1981	1982	1983
GNP Price Deflator	8.7%	9.2%	9.4%	6.0%	4.2%
CPI - Wage Earners	11.4%	13.5%	10.3%	6.0%	3.0%
Producer Price Index (Finished Goods)	11.4%	13.4%	9.2%	4.0%	1.6%
Wage Rates	8.0%	9.0%	9.1%	6.8%	4.5%

TABLE 1D

Interest Rates

	1979	1980	1981	1982	1983
Nominal Rates					
Federal Funds	11.2%	13.4%	16.4%	12.3%	9.1%
Bank Prime Rate	12.7%	15.3%	18.9%	14.9%	10.8%
LT Govt Bonds	9.3%	11.4%	13.7%	12.9%	11.3%
Mortgage Rate	11.3%	14.0%	16.7%	16.6%	13.3%
Real Rates					
Federal Funds	2.5%	4.2%	7.0%	6.3%	4.9%
Bank Prime Rate	4.0%	6.1%	9.5%	8.9%	6.6%
LT Govt Bonds	0.6%	2.2%	4.3%	6.9%	7.1%
Mortgage Rate	2.6%	4.8%	7.3%	10.6%	9.1%

Figure 1


Interest Rates: Nominal vs Real
Prime Rate (Nominal)
Prime Rate (Real)
0.2
0.19
0.18
0.17
0.16
0.15
0.14
0.13
0.12
0.11
0.1
0.09
0.08
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
1979
1980
1981
1982
1983

II. THE R.P.B. INDUSTRY'S 1983 ECONOMIC PERFORMANCE
(Table 2 and Charts 1 and 2)

1982 was the first year of a sales decline after six years of growth. This past year, the growth began again: sales volume increased 10.2%. This volume is over twice the 1967 sales level, resulting in a sales growth rate since 1967 of 4.73% If this rate of growth continues, 1987 shipments should reach $643,470,000. However, a simple projection of historical sales growth into the future is usually a dangerous move. Before we even consider the effect of inflation, we must remember that the industry dynamics are not the same as they were in 1967 and the early seventies. Because the industry is changing, because the economy is changing, and because outside events often intrude into the market place, an analysis of the industry must encompass more than just growth trend.

Just as important is the effect of inflation. Because inflation reduces the value of money, a dollar you earned in 1967 is worth far more than a dollar you earned in 1983. In fact, using the government's best estimator for inflation in the economy, the GNP "implicit price deflator", we find that to have the equivalent of one 1983 dollar back in 1967, you would need approximately $2.75. So if you were earning $10,000 (after taxes) in 1967, and $27,500 in 1983, you are no better and no worse off now than then.

The government also estimates the effect of inflation in specific industries, and then publishes the industrial price indices. Column 4 in Table 2 is just such an index, which we use to see how well an industry is doing after we account for inflation. The prices in the industry have actually risen faster than the prices in the general economy. Using these data to "deflate" the sales index of column 3, we find that the rigid paper box industry has not kept pace with inflation; on the contrary, it is at 69.3% of its 1967 level.

At least, the growth in the industry last year exceeded the inflation rate, resulting in an increase in the R.P.B. production index. But Table 2 and Charts 1 and 2 reflect country-wide averages. Performance by geographical region was different, as indicated by the following 1983 sales growth data:

Billings: Geographically Segregated

Division	% Change from 1982
EAST (Metro)	+23.8
MW (Midwest)	+23.0
SOUTHERN	+8.3
NEW ENGLAND	+6.9
MW (Western)	+6.2
EAST (Central)	+6.0
PACIFIC COAST	+5.9
EAST (Empire)	-2.9

In 1982, the Midwest was the only bright spot; all other regions declined. In 1983, most of the US showed inprovement, except for the Empire sector of the East region. The Midwest sector maintained its strong growth, barely edged out of the first place spot by the Metro sector.

TABLE 2

HISTORICAL SALES AND PRODUCTION SERIES

(1967 = 100)

Year	(1) R-P-B Industry's Annual Sales	(2) Year-to-Year % Change	(3) R-P-B Inds. $ Sales Indices*	÷	(4) Paper & Allied Products Prod. Prices Indices	=	(5) R-P-B Production Indices
1967	$258,944,000	+ 2.4	100.0		100.0		100.0
1968	276,552,000	+ 6.8	106.8		101.1		105.6
1969	286,231,000	+ 3.5	110.5		104.0		106.2
1970	284,514,000	- 0.6	109.9		108.2		101.6
1971	269,719,000	- 5.2	104.2		110.1		94.6
1972	286,981,000	+ 6.4	110.8		113.4		97.7
1973	317,975,000	+10.8	122.8		122.1		100.6
1974	351,999,000	+10.7	135.9		151.7		89.6
1975	316,799,000	-10.0	122.3		170.4		71.8
1976	364,635,000	+15.1	140.8		179.4		78.5
1977	394,900,000	+ 8.3	152.5		186.4		81.8
1978	428,467,000	+ 8.5	165.5		195.6		84.6
1979	464,458,000	+ 8.6	179.4		219.0		81.9
1980	484,430,000	+ 4.3	187.1		249.2		75.1
1981	516,887,000	+ 6.7	199.7		273.7		73.0
1982	485,357,000	- 6.1	187.4		288.5		65.0
1983	534,863,000	+10.2	206.6		298.1		69.3

1967 - 1983 Average Annual Growth Rate: 4.73%

1987 Projected Sales**: $643,470,000

*Obtained by dividing each year's sales by $258,944,000, the sales in the base year, 1967.

**Projection assumes that the annual average growth rate of 4.73% is maintained during the years 1984 to 1987.

CHART 1 - R-P-B INDUSTRY'S DOLLAR SALES & SALES INDEXES: SEMI-LOG SCALES

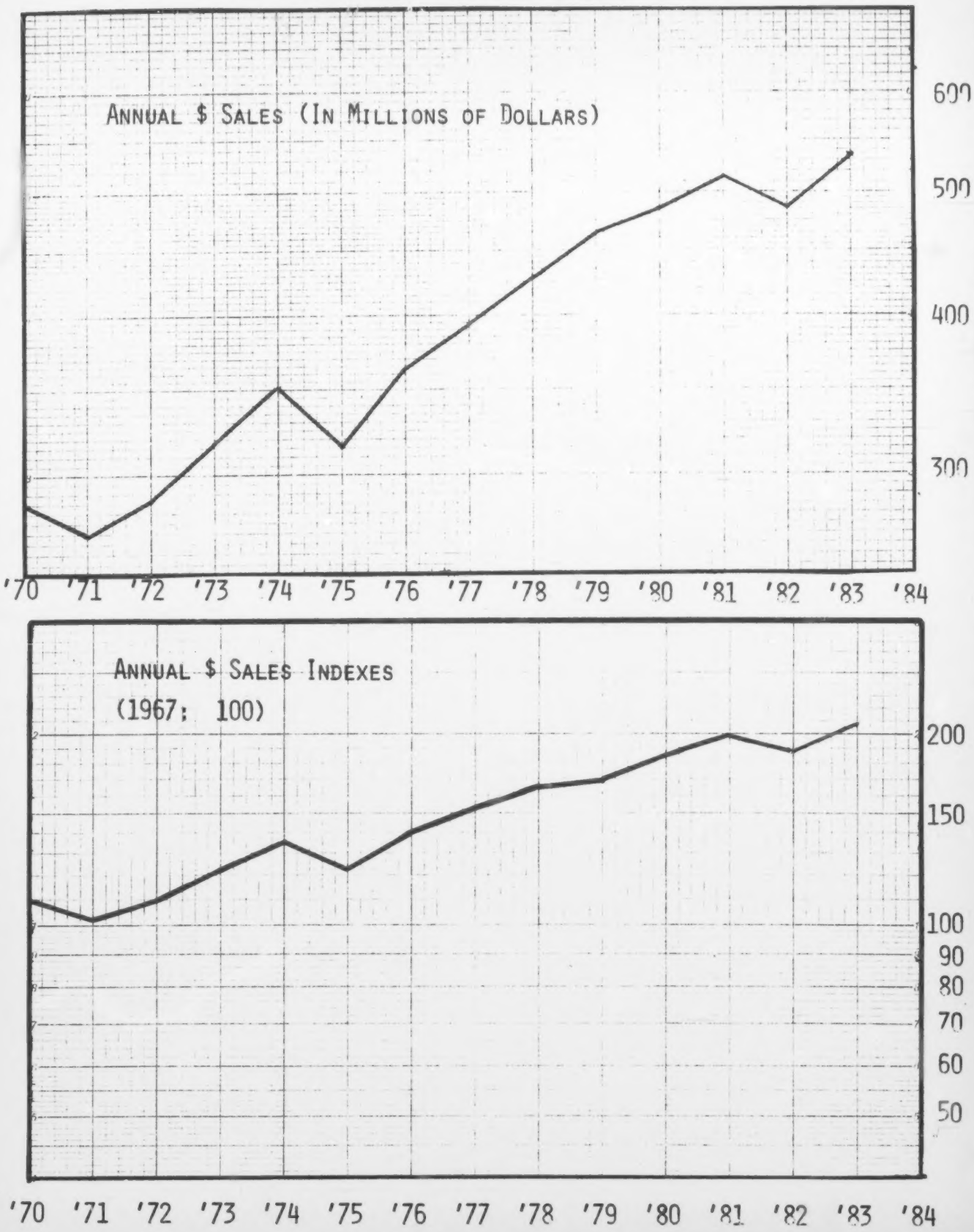
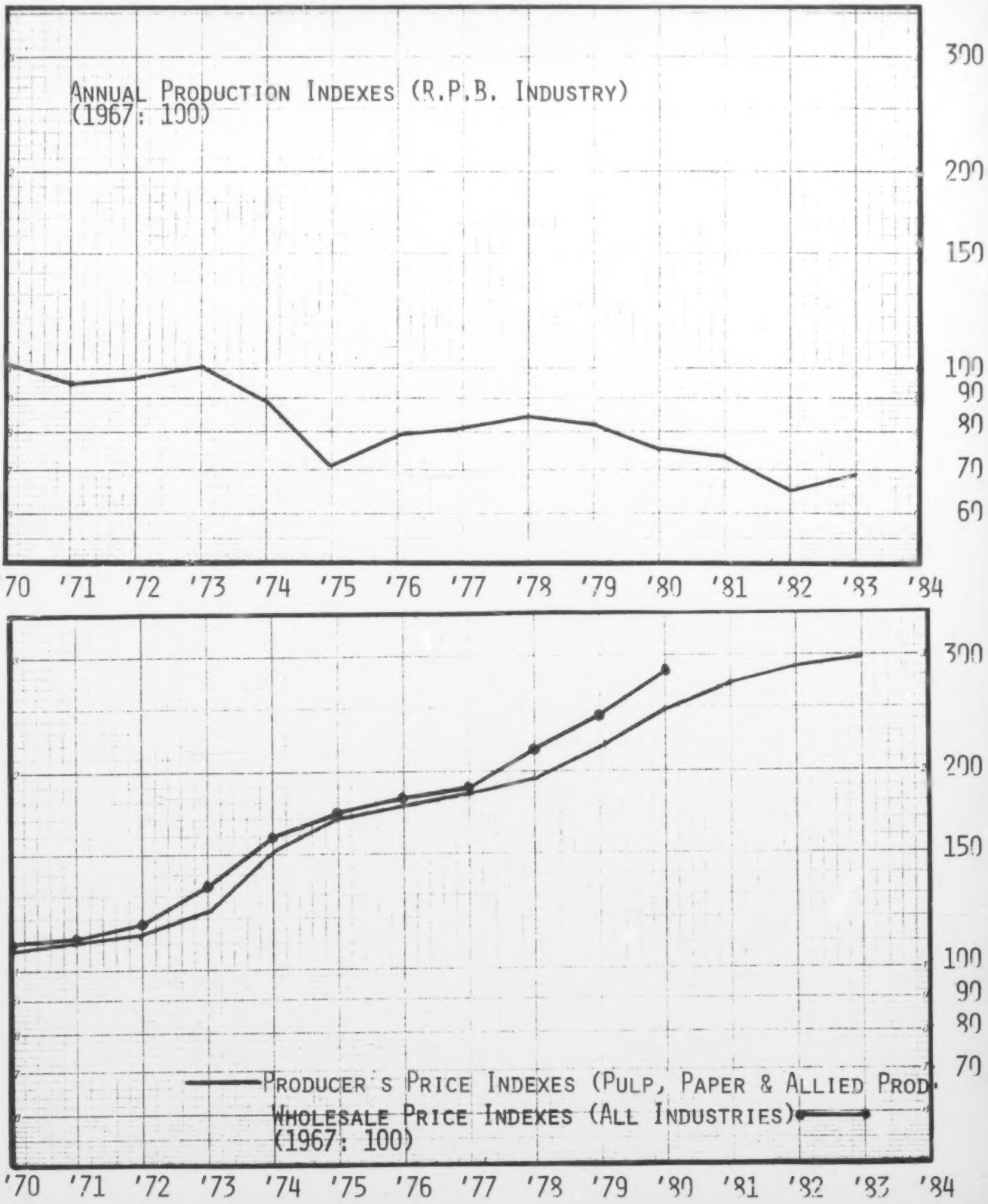


CHART 2 - WHOLESALE PRICE INDEXES & R.P.B. INDUSTRY'S PROD. INDEXES: SEMI-LOG SCALES



Comparative Performance of the R. P. B. Industry to Others in 1983

The R. P. B. Industrial Production Index, calculated in Table 2, jumped 4.3 percentage points in 1983, up from 65.0 in 1982. This sharp jump mirrored the general surge in economic activity, as well as the increasing shipments in the general Paper market. An examination of the production indices for allied industries bears this out. In fact, the Paper industry grew more rapidly than did the general economy. As Table 1A shows, total industrial production grew 6.5% over 1982, while the Paper and Allied Products Industry, as reported by the Federal Reserve Board, grew almost 10%. Needless to say, this surge in shipments contrasts markedly with the poor performance of 1982, when the R. P. B. index actually fell 8 points, and with the year prior when the index dipped 2.1 points.

The production indices of the R. P. B. Industry for the years 1981 to 1983, derived from Table 2, are presented below, along with the indices of other related industries. These indices were obtained from the Federal Reserve's date base; since the R.P.B. Industry is, in fact, a segment of the Paperboard Containers Industry, its indices are not separately reported.

	Indices		% Point Change		% Change	
Industry	1983	1982	1983	1982	1983	1982
RPB	69.3	65.0	4.3	-8.0	6.6%	-11.0%
Paper & Products	164.3	149.6	14.7	-5.4	9.8%	-3.5%
Paperboard	155.5	142.4	13.1	-12.0	9.2%	-7.8%
Paperboard Containers	155.4	143.9	11.5	-6.1	8.0%	-4.1%
Converted Paper Products	194.1	175.4	18.7	1.9	10.7%	1.1%

The percentage point changes can be used to compare the changes over time within each industry subgroup. However, a better measure is the percent change, which allows a direct comparison between subgroups. This measure shows that 1983 was a far better year for all of the components in the paper products industry than either 1982 or 1981. However, the R. P. B. Industry still failed to reach the 1981 production index, in spite of its strong showing.

III. PROFILES OF THE R.P.B. INDUSTRY PERFORMANCE

Profit Performance (Tables 3 and 4 and Chart 3)

Profits for the companies reporting more than doubled in 1983 from 1982, jumping 148.8%. This dramatic increase resulted from increased volume and improving margins. The 10.2% increase in sales, combined with the profit margin more than doubling from 3.1% on sales to 7%, led to industry profits of $37 million on sales of $535 million.

Most expenses decreased their take from each sales dollar. Cost of materials dropped 1.8 percentage points, and factory payroll decreased by 1.3 percentage points. Much of this was caused by the dramatic reduction in inflation at the wholesale level. The factory payroll portion of the sales dollar decreased by 1.3 percentage points, 1.2 points coming from direct labor and 0.1 point from supervision.

Nonmanufacturing expenses ceased their downward movement of last year, increasing 2.1 percentage points. The delivery component decreased a slight 0.1 percentage point while selling expenses fell 0.9 percentage points to 4.7%. In fact, selling costs stood at 6.0% two years ago, and have improved dramatically since. General and administrative expenses accounted for the overall increase, as they rose 3.1 percentage points. The 10.2% jump in sales volume probably accounts for the increase, as the companies who became lean to survive the recession were unable to meet the higher volume easily. Table 4 shows the breakdown.

Several performance ratios can be used to examine the industry. Gross overhead per direct labor dollar gives one measure of efficiency -- how much support is required for a certain amount of work. Although the ratio can be affected by changes in classification between direct and indirect labor, it can show a trend, especially when used with other measures. In 1983, the ratio rose 6.3%, while a similar measure which includes both labor and material increased 2.4%. Administrative and general expenses rose compared to direct labor. All told, these ratios indicate that the industry was incapable of handling the 1983 sales volume without increased indirect support.

Interestingly enough, in the face of a major upsurge in sales volume, Sales to Assets actually decreased from 1.84 to 1.08, a major decline. Increased inventories to handle the increasing sales and more investment in physical facilities probably accounted for this. The 4.7 percentage point increase in liabilities further supports this view, as companies struggled to meet the rising market. The increased asset value of the companies did not hurt the return on asset measure which rose from 5.7% to a far more reasonable 7.6%. At the same time, the companies did not abandon the lean structures that they had so painfully developed during the last recession. Total expenses decreased in terms of sales by 3.9 percentage points.

Performance by Geographic Region

Table 4 shows that the Central region led the rest of the US in profitability (although data from the South are inconclusive because of insufficient Southern respondents). However, the Central region achieved this in spite of the highest cost of sales; the savings came from nonmanufacturing operating expenses -- principally delivery and general/ administrative costs. This performance is even more remarkable given their 1.8% return on sales in 1982, when they came in last place. Furthermore, the Central region reported the largest portion of the sales dollar allocated to depreciation, indicating a far larger cash flow than other regions.

The Western region, however, had a higher gross operating margin than the Central; 32.3% versus 29.4%. The Western region also had higher nonmanufacturing expense which cost it the first-place ranking. The delivery expense was substantially higher in relative terms, while general and administrative expenses were almost two percentage points higher.

The key performance measures in Table 6 show a higher ROA for the Central area, and the least overhead per labor dollar. The Central companies were able to service a higher level of sales with their asset base; sales to assets is 1.54 in the Central region versus 1.17 in the West. Both of these measures, however, are down from 1982, further indicating increased investment in inventory and physical plant.

TABLE 3

GENERAL SUMMARY OF INDUSTRY WIDE PERFORMANCE MEASURES

Item	1983	1982	1983/1982 % Change
Industry Sales	$534,863,000	$485,357,000	10.2%
Sales Index (1967 = 100)	206.5	187.4	10.2%
Production Index (1967 = 100)	69.3	65.0	6.6%
Industry Profits (Before Taxes)	$ 37,440,439	$ 15,046,000	148.8%

Condensed Operating Statement Data as a Percentage of Sales

	1983	1982	Percentage Points Change
1. Net Sales	100.0%	100.0%	0.0
2. Material Costs	32.6%	34.4%	-1.8
3. Total Factory Payroll	27.9%	29.2%	-1.3
4. Manufacturing Expenses	9.5%	12.2%	-2.7
5. Total Cost of Sales	70.0%	75.8%	-5.8
6. Gross Profit on Sales	30.0%	24.2%	5.8
7. Non-Mfg. Operating Expense ..	22.7%	20.6%	2.1
8. Other Expense/Income	0.3%	0.5%	-0.2%
9. Total Non-Mfg. Expense	23.0%	21.1%	1.9
10. Net Profit Before Taxes	7.0%	3.1%	3.9

Balance Sheet Data

11. Total Assets	100.0%	100.0%	0.0
12. Total Liabilities	54.3%	49.6%	4.7
13. Total Net Worth	45.7%	50.4%	-4.7

Financial Ratios

Total Costs & Exp/Sales	93.0%	96.9%	-3.9
Gross Overhead/Direct Labor	185.5%	179.2%	6.3
Gross Overhead/(Direct Labor+Mat'l)	73.0%	70.6%	2.4
Admin. & Gen. Exp./Direct Labor ...	68.6%	51.0%	17.6
Net Sales/Assets (times)	1.08%	1.84%	-0.8
Return on Assets (Before Taxes) ...	7.6%	5.7%	1.9

CHART 3 - TRENDS OF 4 KEY RATIOS: SEMI-LOG SCALES

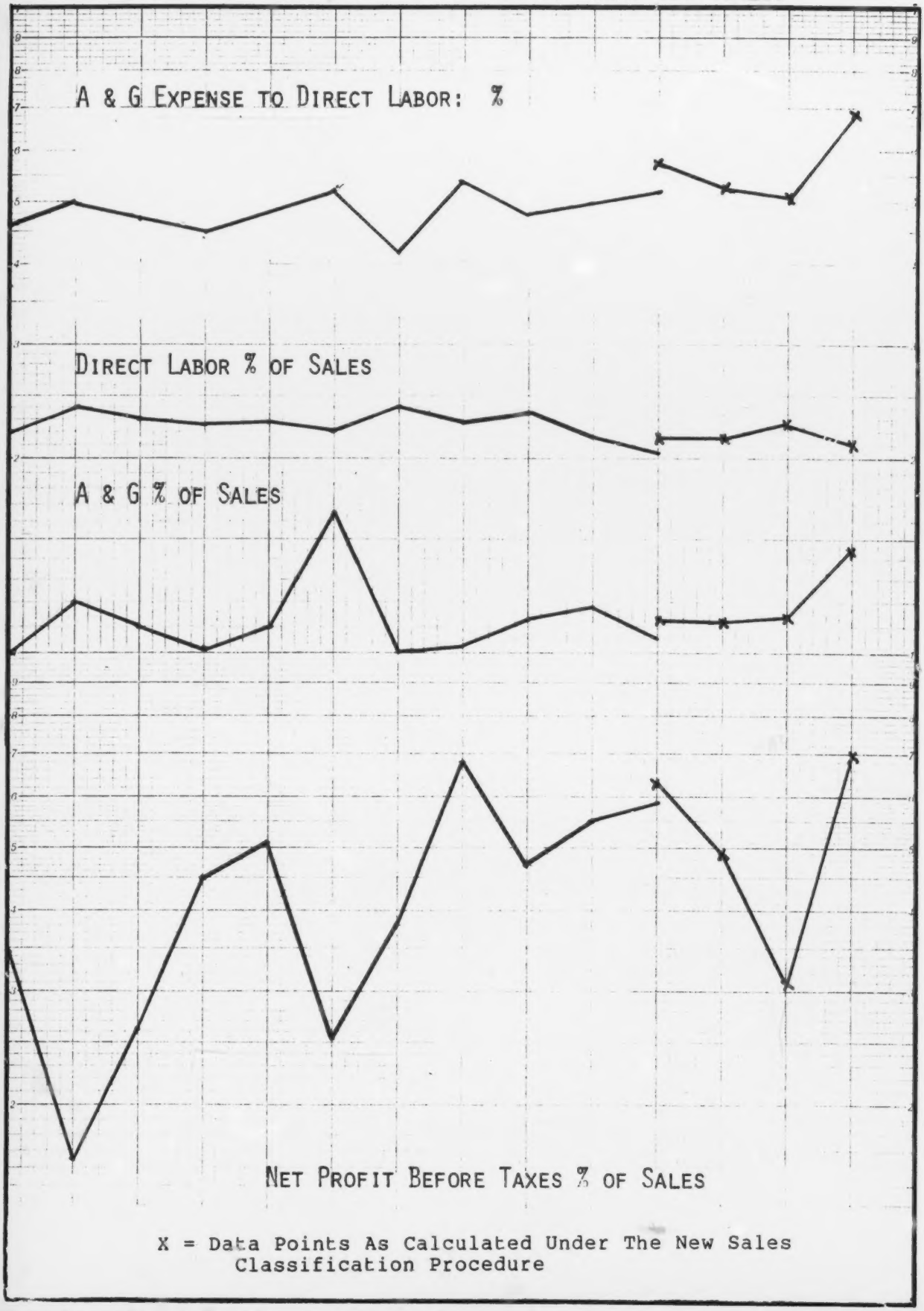


TABLE 4

COMPARATIVE PERCENTAGE PERFORMANCE

BY GEOGRAPHICAL DIVISIONS

1983

Condensed Operating Statement Data as a Percentage of Sales	U.S. TOTAL %	NE+E MET+C %	S* %	MW+W + PC %	Your Company %
1. Net Sales	100.0	100.0	100.0	100.0	100.0
2. Material Costs	32.6	32.5	39.3	32.7	---
3. Total Factory Payroll	27.9	28.5	23.9	24.8	---
4. Manufacturing Expenses	9.5	9.6	6.9	10.2	---
5. Total Cost of Sales	70.0	70.6	70.1	67.7	---
6. Gross Profit on Sales	30.0	29.4	29.9	32.3	---
7. Non-Mfg. Operating Expense	22.8	19.9	21.5	23.5	---
8. Other Expense/Income	0.3	0.5	-0.2	0.2	---
9. Total Non-Mfg. Expense	23.1	20.4	21.3	23.7	---
10. Net Profit Before Taxes	6.9	9.0	8.6	8.6	---
Expense Detail as a Percentage of Sales	%	%	%	%	%
Factory Payroll - Item 3					
3a. Direct Labor	21.2	20.4	12.7	19.9	---
3b. Supervision & Indirect	6.7	8.1	11.2	4.9	---
% Depreciation Incl. in Item 4	17.2	19.6	26.5	8.0	---
Operating Expense - Item 7					
7a. Delivery	3.5	2.6	6.9	4.1	---
7b. Selling	4.7	4.6	1.2	4.8	---
7c. Gen. & Administration	14.5	12.7	13.4	14.6	---
% Exec. Salary Incl. in Item 7c	---	29.9	46.2	31.1	---

*The results obtained for the Southern Geographical Division should be interpreted cautiously. The results shown are based on the responses to the 1980, 1981 and 1982 Survey. The 1983 data could not be calculated because of an insufficient number of survey respondents in the "S" Division.

Performance by Company Size (Tables 5, 6, 7, 8 and 9)

The small companies in 1983 did not generally see the economic upturn. In fact, they lost money. Their operating margin was thinner than the other sized companies, although better than last year. Where they were really hurt was in the nonmanufacturing expenses, which took almost 10 percentage points more of each sales dollar than in the larger companies. In the general and administrative category, they were the highest by far, while they placed second highest in the other two -- delivery and selling. Almost half of the general and administrative expenses were dedicated to executive salaries. The reason for this is clear: fixed costs have to be spread over fewer sales dollars. However, small companies need to reduce the proportion of fixed expenses to sales, either by increasing sales or reducing fixed expenses.

Table 9 shows two measures of productivity, based on the concept of sales by employees. It shows how many sales dollars are generated by each employee. Direct productivity, which measures sales per direct employee, was lowest for the small companies, as was net productivity. At the same time, the administrative load ratio, which measures the level of general and administrative expense per employee, was the highest. A negative return on equity rounds out a picture of a year where the recovery missed the smallest companies in the industry, a major contribution to the jump in liabilities to 63.5% of the asset base from 37.1% in 1982.

Companies in the sales category $825,000 - $2,000,000, in direct contrast with the smallest companies, did the best in the industry, with a return on sales of 13.7%. These companies had the highest operating margin, and improved on their nonmanufacturing expenses from 1982, dropping it from 21.8% to 21.4%. Only general and administrative costs rose. Not only do these smaller companies in the industry have to spread fixed costs over a smaller sales volume, but also when sales increase dramatically, they may actually have to increase these expenditures, which will become fixed at a higher level. They were second in both measures of productivity, but third in administrative load.

Companies with sales between $2 million and $3.5 million fared better than last year, though not as well as some other categories, returning 9% on sales and 24.3% on equity. An operating margin of almost 30% and a reduction in nonmanufacturing expenses told the story here. The highest productivity explained much of the performance, as did the highest sales to assets ratio in the industry.

The largest companies moved from their poor showing of the prior three years into second place in terms of return on sales, and first place in terms of return on equity. The large companies were able to translate their economies of scale into the second highest operating margin and the lowest nonmanufacturing expenses. Although productivity was low compared to the industry, the size of the companies allowed them an administrative load half that of anyone else. Their performance tends to indicate that the large companies can do well compared to their smaller, more agile competitors.

Further information is to be found in the tables which follow. Table 10, an End Use Survey, shows the past nine years of shipments to major markets.

TABLE 5

COMPARATIVE PERCENTAGE PERFORMANCE

BY COMMON SIZE

Condensed Operating Statement Data as a Percentage of Sales	1983 SALES DOLLAR VOLUME 0 to 825M*	825M-2000M	2000M-3500M	3500M+	Your Company
	%	%	%	%	%
1. Net Sales	100.0	100.0	100.0	100.0	100.0
2. Material Costs	33.5	30.7	33.5	32.8	---
3. Total Factory Payroll	30.9	23.9	28.1	28.0	---
4. Manufacturing Expenses	9.7	10.5	8.5	8.8	---
5. Total Cost of Sales	74.1	65.1	70.2	69.8	---
6. Gross Profit on Sales	25.9	34.9	29.8	30.2	---
7. Non-Mfg. Operating Expense	29.1	21.4	20.5	19.1	---
8. Other Expense/Income	0.5	-0.2	0.3	0.6	---
9. Total Non-Mfg. Expense	29.6	21.2	20.8	19.7	---
10. Net Profit Before Taxes	-3.7	13.7	9.0	10.6	---
Expense Detail as a Percentage of Sales	%	%	%	%	%
Factory Payroll - Item 3					
3a. Direct Labor	22.2	19.3	21.5	21.5	---
3b. Supervision & Indirect	8.7	4.6	6.6	6.5	---
% Depreciation Incl. in Item 4	19.5	10.4	23.4	18.0	---
Operating Expense - Item 7					
7a. Delivery	4.1	2.8	5.6	2.5	---
7b. Selling	5.0	2.6	3.1	6.9	---
7c. Gen. & Administration	20.0	16.1	11.8	9.7	---
% Exec. Salary Incl. in Item 7c	46.6	30.6	33.7	7.1	---
Balance Sheet Data	%	%	%	%	%
11. Total Assets	100.0	100.0	100.0	100.0	100.0
12. Total Liabilities	63.5	33.6	39.2	58.3	---
13. Total Net Worth	36.5	66.4	60.8	41.7	---

Table 6

COMPARATIVE PERCENTAGE PERFORMANCE BY:

		1983 SALES DOLLAR VOLUME					GEOGRPAHIC			
		U.S. TOTAL	0 to 825M	825M-2000M	2000M 3500M	3500M+	NE+E MET+C	S*	MW+W + PC	Your Company
1.	Total Costs & Exp/Net Sales	93.0%	103.7%	86.3%	91.0%	89.4%	91.0%	91.4%	91.4%	---
2.	Gross Oh'D./D.L. ...	185.5%	216.9%	189.2%	167.4%	163.6%	187.5%	310.2%	195.3%	---
3.	Gross Oh'D./ (D.L. + MTL)	73.0%	86.5%	73.1%	65.4%	64.5%	72.3%	75.8%	74.0%	---
4.	Net Worth/ Total Assets	45.7%	36.5%	66.4%	60.8%	41.7%	56.6%	--	66.5%	---
5.	(Gen. & Admin.)/ D.L.	68.6%	90.1%	83.4%	54.8%	45.1%	62.3%	105.5%	73.4%	---
6.	Net Sales/ Total Assets	1.08	.67	1.51	1.64	1.31	1.54	1.59	1.17	---
7.	Return on Assets before Taxes	7.6%	-2.5%	20.7%	14.8%	13.8%	13.9%	--	10.2%	---

*Those results shown for the "S" Division represent the average of 1980, 1981 and 1982 performance. The 1983 data could not be calculated because of an insufficient number of survey respondents in this particular category.

Items with a -- mark could not be calculated to be representative figures due to the small number of companies responding to the particular survey question.

TABLE 7

MISCELLANEOUS PERFORMANCE RATIOS

ACCORDING TO COMPANY SIZE

	1983 SALES DOLLAR VOLUME				
	0 to 825M	825M-2000M	2000M-3500M	3500M+	Your Company
Inventory Turnover (times)	6.0	5.8	5.4	4.3	---
Labor Turnover (times)	1.1	1.4	3.3	1.5	---
Collection Period (days)	42.0	33.9	34.8	40.1	---

TABLE 8

AVERAGE NUMBER OF EMPLOYEES

ACCORDING TO COMPANY SIZE

	1983 SALES DOLLAR VOLUME				
	0 to 825M	825M-2000M	2000M-3500M	3500M+	Your Company
Average Number of Employees					
Direct Labor	14.0	25.0	47.3	125.8	---
Indirect Labor	2.8	4.9	7.2	25.5	---
Sales, Administrative and Other ..	4.4	5.8	8.5	14.0	---

TABLE 9

COMPANY IMAGE STATISTICS

TITLE	RATIOS	1983 SALES DOLLAR VOLUME				
		0 to 825M	825M–2000M	2000M–3500M	3500M+	Your Company
Direct Productivity	Sales / Direct Labor Employment	$38,912	$45,752	$53,164	$40,556	---
Net Productivity	Sales / Total Employment	$25,662	$32,107	$39,943	$30,862	---
Administrative Load	Gen. & Admin. Expense / Direct Labor Employment	$ 7,813	$ 7,3[illegible]7	$ 6,244	$ 3,933	---
Depreciation Recovery	Depreciation Expense / Sales	1.9%	1.1%	2.0%	1.6%	---
Return on Equity	Net Profit Before Taxes / Net Worth	-6.8%	31.5%	24.3%	33.1%	---
Employment Investment	Net Worth / Total Employment	$14,028	$14,162	$14,756	$ 9,819	---

TABLE 10

END-USE SURVEY OF INDUSTRY SALES

(Percent)

(Millions)	1975	1976	1977	1978	1979	1980	1981	1982	1983
Textiles Apparel & Hosiery	7.5	3.7	4.8	7.3	4.5	4.4	5.5	3.3	3.4
Dept. Stores & Specialty Shops	9.9	10.7	10.6	10.1	8.3	6.8	7.1	5.6	7.2
Cosmetics & Soaps	1.8	5.3	5.1	3.3	4.3	5.5	3.9	1.4	1.4
Confections	13.3	10.5	8.1	9.0	15.7	12.6	18.0	16.6	17.2
Stationery & Office Supplies	9.7	12.5	13.2	11.8	15.0	13.5	9.3	17.1	19.1
Jewelry & Silverware	5.2	4.2	14.0	10.7	7.6	9.3	9.7	10.0	6.3
Photographic Product & Supplies	2.2	2.4	2.7	3.0	3.5	4.5	4.3	4.5	3.6
Shoes & Leather	4.8	1.3	1.1	3.7	0.4	0.3	0.2	0.3	0.4
Drugs, Chemicals & Pharmaceuticals	6.9	9.3	7.3	4.9	13.1	7.5	7.8	6.3	6.7
Toys & Games	2.3	3.3	2.6	2.1	1.4	1.4	1.8	2.9	2.2
Hardware & Household Supplies	7.0	6.4	6.2	5.4	3.4	5.5	4.0	7.5	6.7
Food & Beverages	2.9	3.6	0.3	2.9	5.4	4.3	3.9	1.4	1.5
Sporting Goods	1.9	0.7	1.0	1.2	1.7	1.2	1.2	0.4	0.4
Other Major Customers (A)									
(a) Electronics	3.4	4.2	2.6	2.9	4.3	3.6	3.5	3.9	3.4
(b) Educational	3.9	3.9	6.5	5.2	3.8	3.7	4.4	2.7	2.7
(c) Other	12.2	5.6	7.1	10.7	1.1	8.4	7.0	7.8	7.9
Misc. Customers	5.1	12.4	6.8	5.8	6.5	7.5	8.4	8.3	9.9
	100%	100%	100%	100%	100%	100%	100%	100%	100%

TABLE 11

RIGID BOX NEW & USED MACHINERY PURCHASED

	1983		
Sales Size	Total	No. of Co.'s*	Avg. per Co.
$0 - 825M			
New	$116,598	2	$58,299
Used	$ 400	1	$ 400
$825M - 2000M			
New	$ 29,433	5	$ 5,887
Used	$ 2,930	2	$ 1,465
$2000M - 3500M			
New	$ 24,345	2	$12,172
Used	$102,200	3	$34,067
$3500M +			
New	$ 25,000	1	$25,000
Used	$ 26,500	2	$13,250

*No. of Co.'s = Number of Companies that reported purchases.